How does your income stack up?

How to price your practice Part III

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a manpower surplus

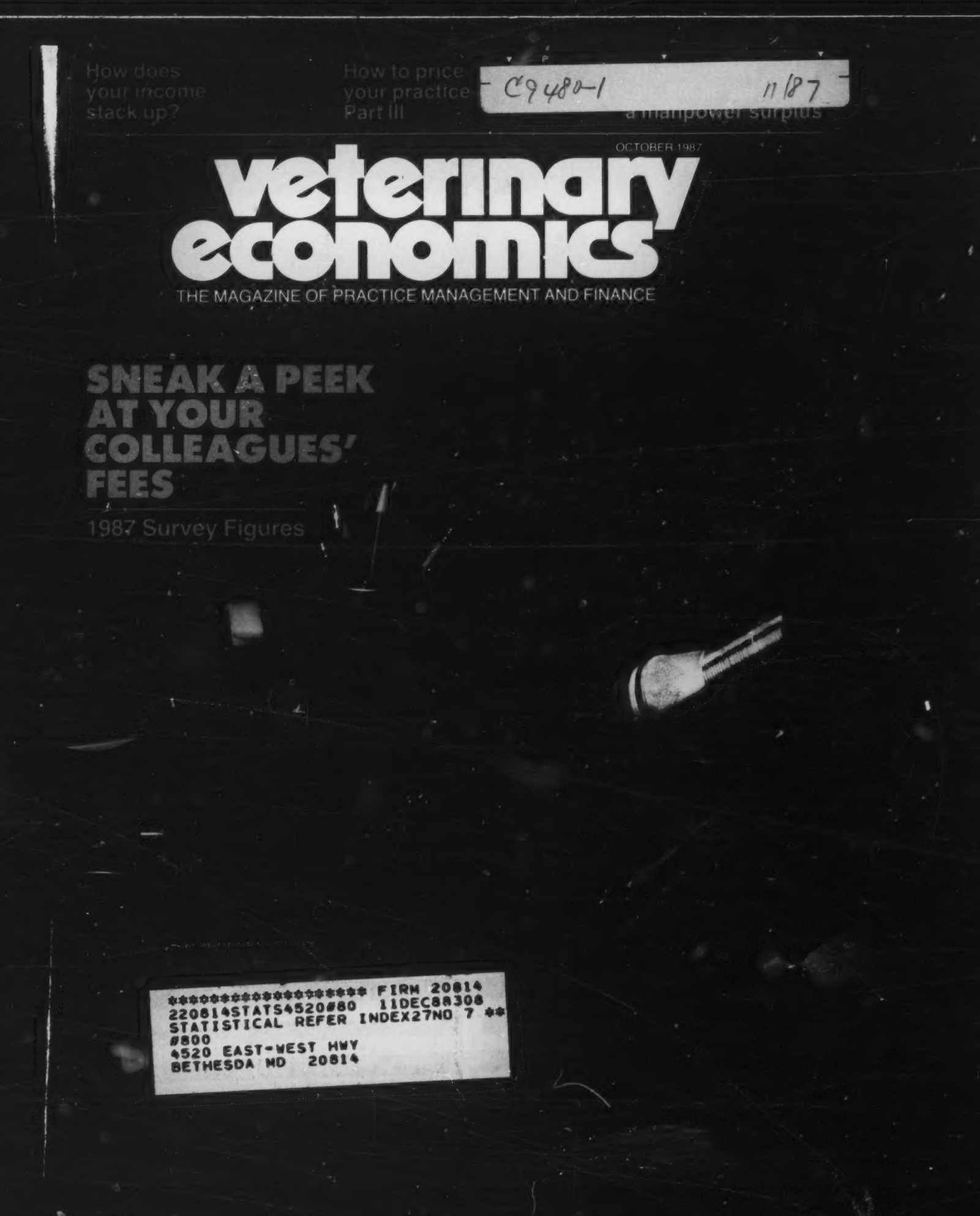
OCTOBER 1987

# veterinary economics

THE MAGAZINE OF PRACTICE MANAGEMENT AND FINANCE

## SNEAK A PEEK AT YOUR COLLEAGUES' FEES

1987 Survey Figures



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# MEMO FROM THE EDITOR

## Stop being an Inspector Clouseau when it comes to tracking down fees

Here's how it usually happens: About 8 a.m. you fill your coffee mug and march into your office, yelling to the receptionist to hold all your telephone calls. You also hope you have created a "damn the torpedoes, full speed ahead" James or Jane Bond image in front of your staff. You shut your door with authority, but think you hear giggles from the AHTs lingering at the receptionist's desk. Dismissing those catcalls, you take your seat behind your desk, place the telephone in the center of the desk, and don your best client voice—all to prepare for that call to the clinic down the street to inquire about its fees.

You stare at the phone for a long time. Then you realize that your hand won't move toward it. You start to count the numbers from one to 10 forward and backwards, run through the alphabet, and strum the buttons with your fingers. You know this is worse than inviting your mother-in-law for dinner. After two hours you're anxious, miserable. You check your heart rate and find it racing like a greyhound. But you go on eyeing the phone like a dog checking for the late postman. You curse yourself for playing up in front of your staff this task of finding out your colleague's fees. You must save face. Finally you snatch up the receiver and smash your fingers against the buttons, all but one. You toss the silent receiver back into its cradle and vow to summon your courage again the next morning.

I'd *like* to tell you that this month's cover story, "Sneak a Peek at Your Colleagues' Fees," reads more like a suspense novel than the doctor tale mentioned above. I'd like to say there's intrigue, fast action, top secret information, back-room dealing, foreign capitals, and more in these pages. I'd like to tell you that, but it's not exactly true. There's no real cloak and dagger stuff when it comes to setting your fees.

How do practitioners really set their fees? Too often the veterinarian is Inspector Clouseau rather than an adventurous Bond when he wraps a paper towel over the receiver of the phone and asks his classmate his fees. Here's an old saw: If two veterinarians talk for more than eight minutes, one of them will invariably ask the other what he charges for a spay.

With this month's cover story we've taken the Pink Panther nonsense out of your hunt for perfect fees. No second story men or cat burglars needed, thanks. We've surveyed 4,500 veterinarians about their fees. Now you can sit comfortably in your office or at home and read what veterinarians now charge for many services.

Michael D. Sollars

By Michael D. Sollars

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# CAN A CPA COUNT IN YOUR PRACTICE?

This survey shows that DVMs use only a few accounting services but that CPAs can offer more.

By Richard J. Vargo, PhD, and Jaime Agudelo, PhD, CPA

Most veterinarians need accounting assistance to manage their practice and personal financial affairs. Both CPA and non-CPA consultants, advisors, and planners offer income tax and management advisory services to veterinarians. But CPAs are more numerous and more generally available.

To determine how many veterinarians currently use CPAs, the range of services offered, and satisfaction with those services, questionnaires were sent to a random sample of 188 veterinarians practicing in 10 metropolitan areas of the country. The response rate was 38 percent.

Of the 72 respondents, 65 use CPAs for some aspect of managing their practice or personal financial matters. Not only were CPAs widely used by veterinarians, but 31 percent were definitely satisfied, and 60 percent generally satisfied with the quality of professional services provided.

Those few veterinarians not using CPAs most often gave these reasons: Similar services can be obtained from others, CPA fees are too high, and CPA services are unnecessary.

The chart shows how veterinarians use CPAs. The first column indicates how many veterinarians used each professional service during the past year. The second shows additional professional services that the veterinarians wanted during the past year and would have paid for. The third column is a market service index, that reflects the relative degree to which CPAs are fulfilling veterinarians needs for professional services.

### Beyond tax returns

Clearly, the preparation of income tax returns, and of financial statements, and income tax planning were the professional services used most often by this group of veterinarians. No other service was used by more than half of the veterinarians responding.

Note that only the income tax preparation service is being offered to all veterinarians. Thus, the often-heard allegation that the CPA/veterinarian relationship revolves around tax work appears to be substantiated.

Also note that cost control studies show a very low market service index, yet it is one of the services most requested by veterinarians. The demand exists because many DVMs face intense competitive pressures. In such an environment, doctors become acutely aware of the need for sound business practices and procedures.

### Other CPA services

There are also several other services with low market service indexes, yet with relatively high demand for CPA expertise. Things such as review of insurance policies, assistance to obtain financing, personnel management, assistance to install a computer and budgeting have been ignored by CPAs. That is possibly because, in the past, fewer veterinarians requested them.

Most accountants are quite ca-

AUTHOR Richard J. Vargo is professor of accounting at the University of the Pacific, Stockton, California. He is co-author of the American Institute of Certified Public Accountants' continuing professional education program "Services to Clients: Physicians, Dentists and Veterinarians."

AUTHOR Jaime Agudelo is an associate professor of Accounting at the University of the Pacific, Stockton, Calif.

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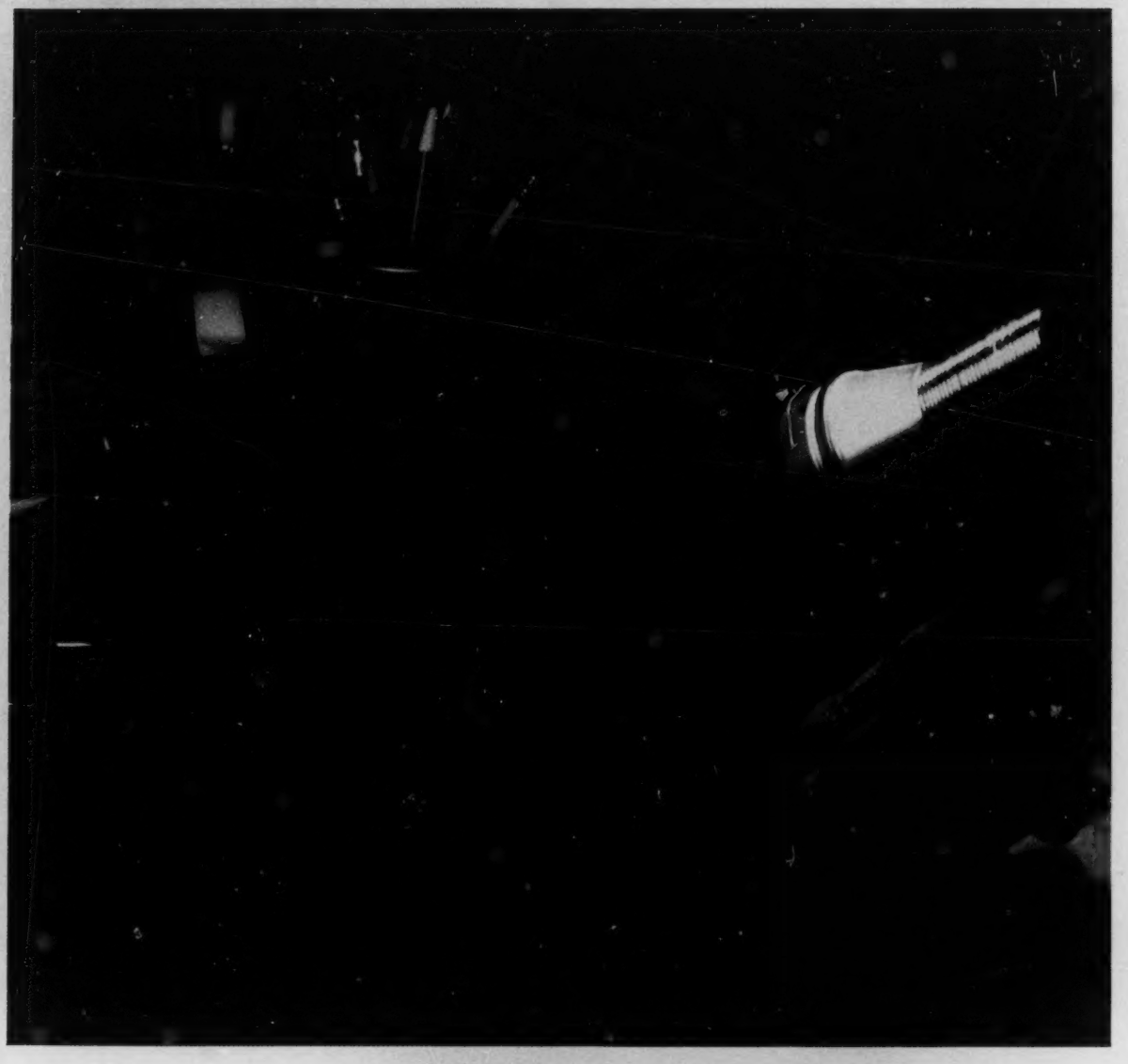
pable of rendering these services. However, the weighted average composite market service index of 58.6 percent indicates that approximately 41 percent of the services possibly needed by veterinarians are not now being provided by CPAs. This leaves substantial opportunity to expand CPA services to veterinarians.

It appears that DVMs under use CPAs. Thus, many additional services could be offered to, and used by, veterinarians. ■

## HOW VETERINARIANS USE CPAs

| Professional service | Current (a) | Additional services (b) | Market service (a) ÷ (a + b) |
|---|---|---|---|
| Prepare income tax returns | 65 | 0 | 100.0% |
| Prepare financial statements | 39 | 3 | 92.9 |
| Income tax planning | 35 | 11 | 76.1 |
| Review organizational form (partnerships, corporate form, etc.) | 19 | 7 | 73.1 |
| Financial plans for investments | 15 | 16 | 48.4 |
| Review of cash handling procedures | 15 | 11 | 57.7 |
| Review of accounting systems (feasibility of computers, etc.) | 10 | 18 | 35.7 |
| Estate planning | 8 | 12 | 40.0 |
| Review of receivables collection | 6 | 13 | 31.6 |
| Assistance in obtaining financing | 4 | 10 | 28.6 |
| Review insurance needs | 4 | 14 | 22.2 |
| Personnel management | 3 | 9 | 25.0 |
| Assist installing computer | 2 | 7 | 22.2 |
| Assist in office location | 2 | 1 | 66.7 |
| Cost control study | 1 | 18 | 5.3 |
| Budgeting | 1 | 9 | 10.0 |
| Patient/client schedule review | 0 | 2 | 00.0 |
| Office layout/decor analysis | 0 | 1 | 00.0 |
| Composite | **229** | **162** | **58.6%** |



# SNEAK A PEEK AT YOUR COLLEAGUES' FEES

No cloak and dagger required. Just glimpse VETERINARY ECONOMICS' 1987 Continuing Survey of clinic charges and see how you compare.

By George Earle MANAGING EDITOR

Even the most observant practitioner would have trouble spying a pattern to fee changes during 1987. But the VETERINARY ECONOMICS Continuing Survey does show that in certain regions, and among some types of practice, fees have changed substantially this year.

The best news for veterinarians is that average client transaction fees rose in most regions. While the West continues to lead in average transaction charges, small animal practitioners around the country saw a modest 8 percent gain. But taking a narrow edge over other practitioners, large animal doctors raised fees from $24 to $35.30, a 47 percent increase in average client transactions.

Office call fees have increased across the board. The average office call fee for large animal practices rose 26 percent from 1986 to this year. That number in mixed practices was up 14 percent, and in small, 5 percent.

One reason for the fee boosts may be the poor performance in DVM earnings during 1986.

**Normal service fees up slightly**

With the exception of hospitalization charges, the West continues to outpace other regions in fees for typical veterinary services. Doctors in the Northeast raised hospitalization charges 26 percent.

Basic immunization fees flopped all over the map, but generally reversed last year's downward trend. Charges by mixed practitioners for livestock immunization increased 17 percent. Fees for feline immunizations ran up more than 13 percent in mixed practices, and rose almost 2 percent in small animal practices.

Fees for canine immunizations remained steady in small animal practices but increased 9 and 7 percent respectively in mixed and large animal practices.

Ovariohysterectomy fee data was compiled differently this year from in 1986. Instead of gathering fee information on anesthesia, surgery, and hospitalization separately, practitioners were asked to state their charges for the services as a package. However, the survey did gather information on such charges for three categories of animals—cats and dogs under 20 pounds, dogs 20 to 49 pounds, and dogs 50 pounds and larger. ▶

## CLIENT TRANSACTION FEES INCREASE IN MOST REGIONS

| | Average client transaction 1987 | Average client transaction 1986 |
|---|---|---|
| West | $38.90 | $35.20 |
| Plains States | $28.90 | $27.50 |
| Great Lakes | $30.50 | $29.30 |
| Northeast | $35.10 | $30.90 |
| South-Atlantic | $36.20 | $30.50 |
| Mid-South | $31.00 | $28.00 |
| Southwest | $34.00 | $34.00 |

## LARGE ANIMAL DOCTORS LEAD TRANSACTION FEE INCREASES

| | Average client transaction 1987 | Average client transaction 1986 |
|---|---|---|
| Small | $35.20 | $32.70 |
| Mixed | $27.00 | $25.30 |
| Large | $35.30 | $24.00 |

**Farm call fees mixed**

Total farm call charges per animal increased slightly in 1987 among mixed animal practitioners, though exam charges per animal for this type of practice remained about steady. Total charges per animal among large animal DVMs dropped slightly.

A closer look at farm call fees shows that the median mileage charge among large animal practitioners jumped 60 percent, from $.50 per mile to $.80. Exam charges per animal also showed modest gains of 4.6 percent for small animal practices and 1 percent for mixed. Exam charges per animal among large animal practices declined approximately 5 percent.

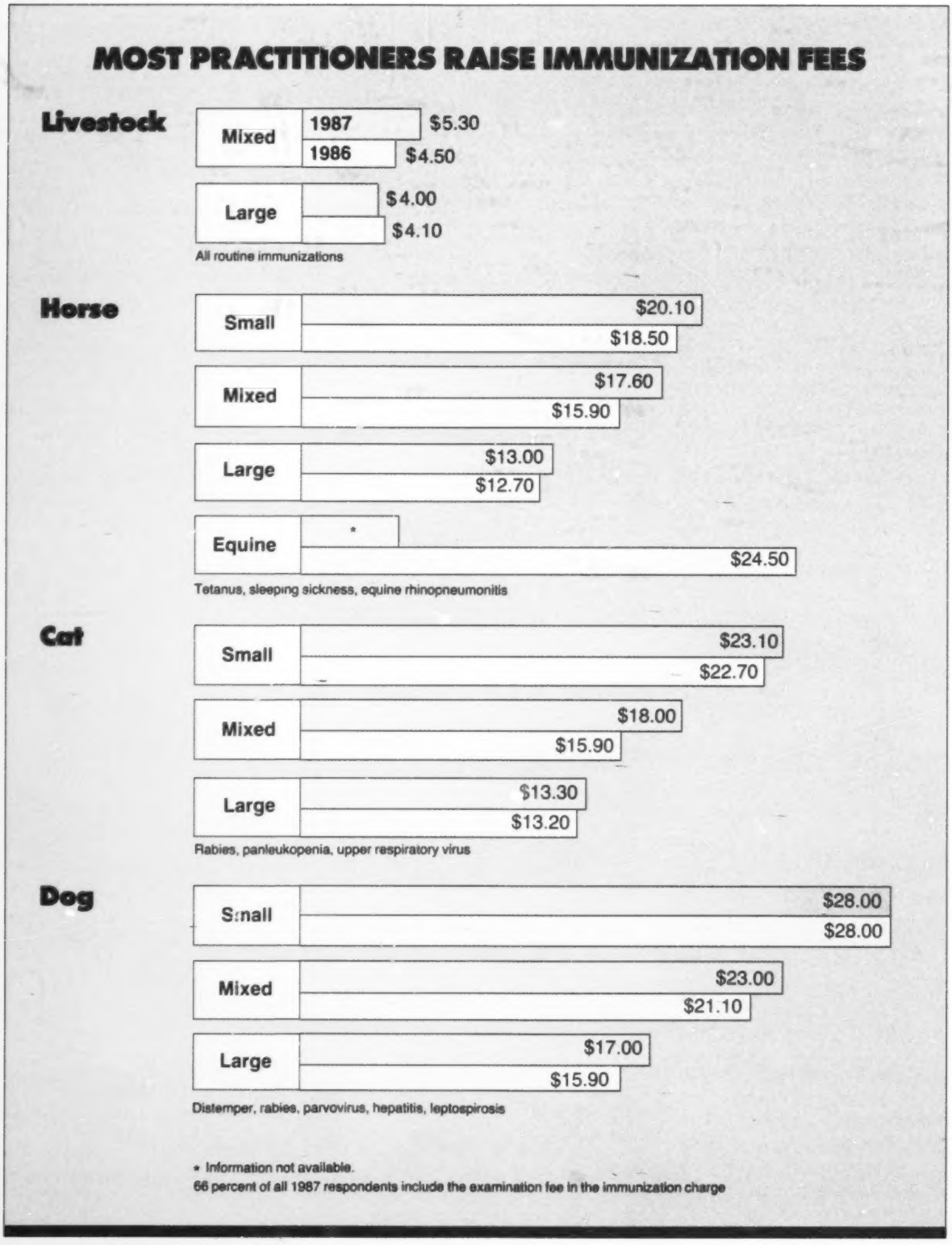
The median collection rate in 1986 improved slightly from the previous year. The rate for small animal practitioners was 98.3 percent, 95.7 for mixed, and 95.9 for large animal. ▶

## SMALL ANIMAL PRACTITIONERS CHARGE HIGHER FEES

| | Office (includes exam) | Lab analysis[1] | Radiography[2] | Antibiotic injection | Hospitalization[3] |
|---|---|---|---|---|---|
| Small animal | $15.60 | $53.80 | $25.20 | $ 7.00 | $11.30[4] |
| Mixed animal | $12.20 | $43.60 | $16.50 | $ 4.60 | $ 6.50[5] |
| Large animal | $10.20 | $42.10 | $15.90 | $ 3.70 | $ 8.20[6] |
| Equine | $15.60[7] | $59.70 | $14.20 | $10.10 | $15.80[7] |

1 Includes urinalysis, blood chemistry, and CBC.
2 Per film.
3 Hospitalization includes daily exam and boarding.
4 Hospitalization for small animals under 20 lb. The median small animal practice fee for dogs 20-49 lb is $12.60 and for dogs 50 lb and more is $14.50.
5 Hospitalization of small animals under 20 lb. The median mixed practitioner fee for dogs 20-49 lb is $7.60 and for dogs 50 lb and more is $8.40.
6 Fee for bovine hospitalization.
7 These equine figures have a low base.

## MOST PRACTITIONERS RAISE IMMUNIZATION FEES




* Information not available.
66 percent of all 1987 respondents include the examination fee in the immunization charge

| | Office call (includes exam) | Lab analysis | Radiography | Antibiotic injection | Hospitalization |
|---|---|---|---|---|---|
| **West** | **$16.80** | **$63.70** | **$25.10** | **$8.30** | **$11.20** |
| **Plains States** | $10.80 | $37.20 | $20.00 | $5.30 | $6.70 |
| **Great Lakes** | $14.20 | $26.90 | $21.20 | $5.90 | $10.70 |
| **North-east** | **$16.20** | **$51.30** | **$22.00** | **$5.20** | **$13.40** |
| **South-Atlantic** | $15.40 | $51.70 | $21.00 | $6.50 | $10.70 |
| **Mid-South** | $12.90 | $35.50 | $20.00 | $6.00 | $10.40 |
| **Southwest** | $14.10 | $34.70 | $20.80 | $7.90 | $ 9.40 |

## STANDARD FEES CREEP HIGHER IN MOST REGIONS

Although fees for standard veterinary services increased slightly in almost all regions, the West again led the nation. Hospitalization fees showed the greatest jump in the Northeast and office call charges were still lowest in the Plains States. While fees for radiography were fairly consistent in all regions, lab analysis charges for standard tests varied drastically. The total fee for urinalysis, fecal, blood chemistry, and CBC was more than twice as much in the West as in the Great Lakes.

## FARM-CALL FEES VARY BY TYPE OF PRACTICE

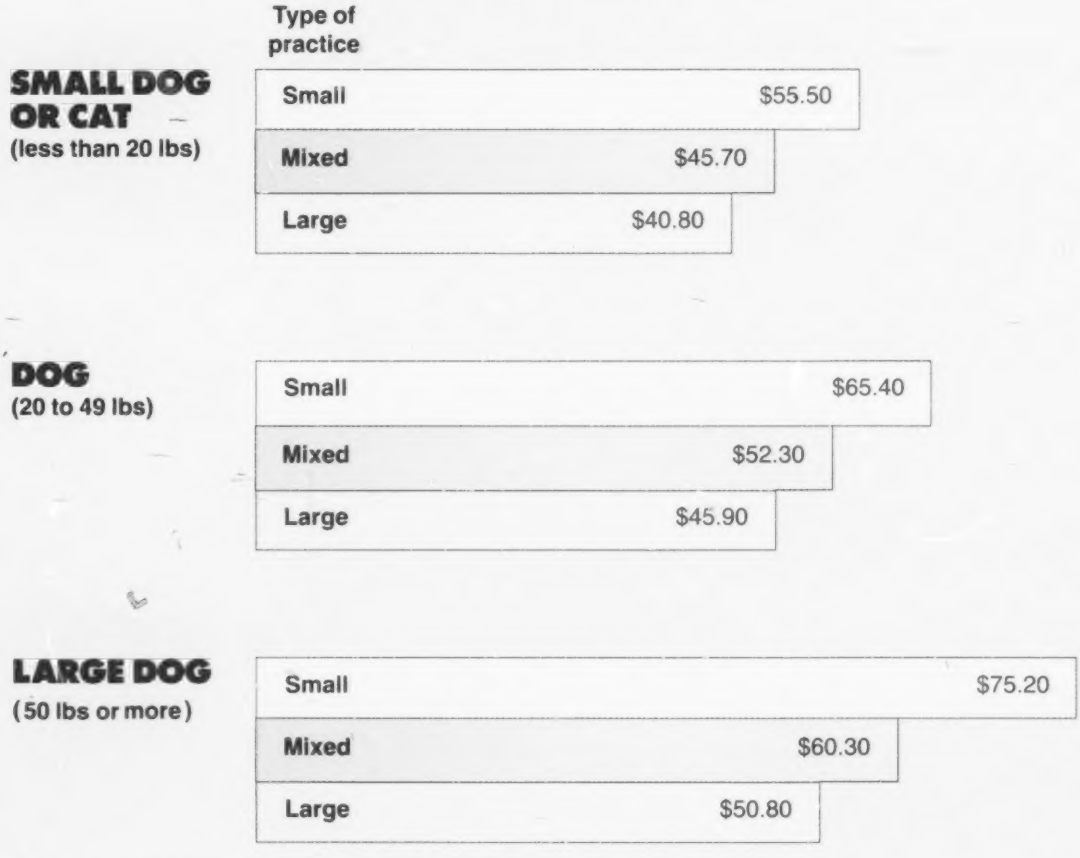
**Exam charge per animal**

| | | |
|---|---|---|
| Mixed | 1987 | $10.30 |
| | 1986 | $10.20 |
| Large | | $5.50 |
| | | $5.80 |

**Total charge per animal**

| | | |
|---|---|---|
| Mixed | 1987 | $32.80 |
| | 1986 | $29.70 |
| Large | | $19.30 |
| | | $19.70 |

## OVARIOHYSTERECTOMY FEES VARY GREATLY BY TYPE OF PRACTICE*




*Ovariohysterectomy fees include anesthesia, surgery, and hospitalization.

# HOW DOES YOUR INCOME STACK UP?

## VETERINARY ECONOMICS' Continuing Survey shows mixed results for the profession.

By Deborah Shouse

If you're working more but netting less, you're not alone. VETERINARY ECONOMICS' 1987 Continuing Survey shows veterinarians had a discouraging 1986. Generally, the typical practitioner across the country grossed $114,600 and netted $40,500 this past year. That compares to 1985's gross of $113,600 and net of $41,100.

### On the farm, in the city

Large animal earnings leaped 11 percent, from $102,500 in 1985 to $113,900 in 1986. Mixed animal doctors grossed only 2.6 percent more, with 1986 earnings of $111,700. Small animal earnings crept down to $117,800, a decline of 3.1 percent from 1985.

Net earnings decreased 1.5 percent, while expenses outsped earnings for all practice types. Mixed animal practitioners kept the tightest rein on their costs, with an increase of only $600 from 1985. Small animal doctors each spent $2,300 more in 1986. Expenses for large animal doctors galloped from $48,000 in 1985 to $54,400 this past year.

While rising expenses of 2.5 percent outdistanced the modest 0.8 percent increase in gross income in 1986, Owen McCafferty, CPA, describes 1987 and the future economic situation for the profession as hopeful.

"Fees have gone up and the number of total visits have generally increased," comments McCafferty, a leading authority of financial management and practice evaluation for veterinarians. "This is a healthy sign."

### Associates see more dollars

Employed veterinarians fared a little better in 1986, finding 0.4 percent more income to take home. Still, their typical $28,500 income holds little spark for the future.

Individual drugs and medical supply costs on a per-practitioner basis shot up 6.9 percent, while total practice expenses for drugs and medical supplies soared 12.4 percent.

Even though veterinarians are netting less, they are collecting a greater portion of their receivables. All types of practices improved collections, but small animal led with a 98.3 percent success rate.

McCafferty credits part of this success to computers. "Computers make billing easier and more efficient," he says.

The Ohio CPA believes the initial dip in income and time consumed in adapting to a computerized environment is ending for many veterinary practices. "They are starting to see benefits," McCafferty says.

### Practice improves profits

Top earners tend to be older and seasoned practitioners. Veterinarians practicing 21 to 30 years netted the most at $52,500, compared with 1985's high earners practicing 11 to 20 years, who made $52,100. The second highest net at $49,200 was produced by those DVMs practicing 31 to 40 years. The first five "formative" years are the low earning years, coughing up only $22,300.

### Corporate animals have more

As in the past, incorporated practices earned more than unincorporated. Owners in corporations netted $51,900, *vs.* the $43,200 net of unincorporated DVMs. ▶

THE AUTHOR, who holds an MBA from Rockhurst College, is a business and financial writer from Leawood, Kan.

The 1987 Continuing Survey was mailed in January to 4,500 veterinarians in private practice (compared to 3,500 questionnaires sent in 1986). Usable returns ran 912, 222 more than in 1986.

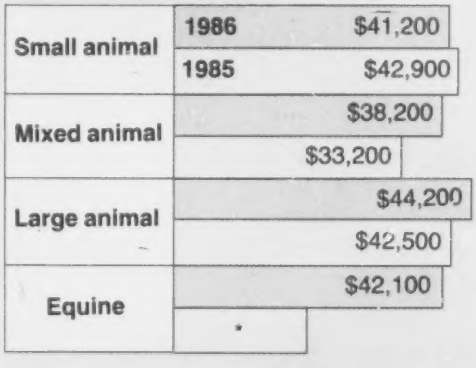
All figures in the following charts are medians. Research by Medical Economics Co. Inc. Research Group for VETERINARY ECONOMICS. This article is ©1987 and published by Veterinary Medicine Publishing Co. Inc. at Lenexa, Kan. 66215. All rights reserved. This article may not be reproduced or paraphrased in whole or in part in any manner whatsoever without permission. Limited quotations, if properly referenced, are acceptable.

# GROSS INCHES UP BUT NET SLIPS

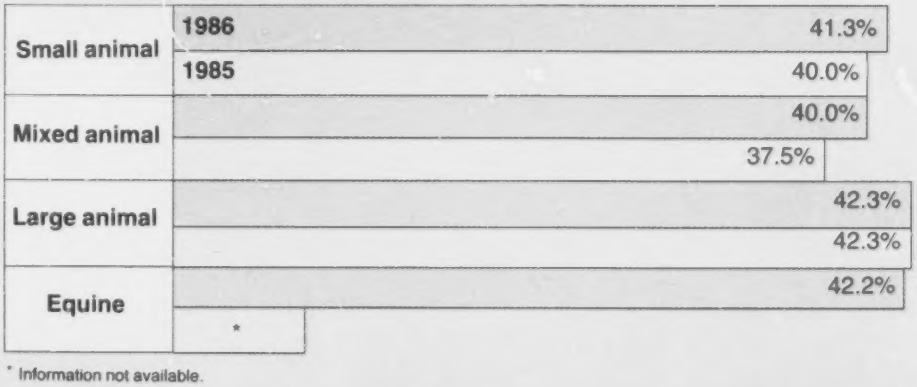
While the median gross of all practitioners increased $900 to $114,600, individual veterinarian net dipped $600. The culprit was expenses, which rose 2.5 percent to $56,700. Net earnings as a percentage of gross increased for many. Mixed animal practitioners lead with a 2.5 percent jump. Small animal practitioners cleared 1.3 points more and large animal doctors remained even.

## GROSS EARNINGS

## NET EARNINGS




## NET AS A PERCENTAGE OF GROSS




* Information not available.

"Because of the differential in tax rates, the corporation can accumulate more working capital and compete more effectively," says CPA McCafferty. "Plus, corporations demand organization, logic, and planning."

Despite the tax savings and increased earnings potential, only 29 percent of the male veterinarians are incorporated, while 53.2 percent remain unincorporated and 17.8 percent are employed. Of the females in private practices, a mere 9.3 percent wear the corporate shield.

Large animal practices had the highest percentage of incorporation, with 30.4 percent, a significant decline from 39 percent in 1985. Among mixed animal veterinarians, 26.6 percent worked in a corporate structure, as did 25.5 percent of the equine and 24.4 percent of small animal DVMs.

### More work for a little extra

In 1986, large animal practitioners again worked more hours than their colleagues, but they also rode home with the highest earnings. The small animal doctors escaped the grueling 57-plus hour weeks of their colleagues. They hurried home after 48.3 hours.

Despite longer hours and lower pay for practitioners, McCafferty believes the veterinary profession is nearing a "breakthrough."

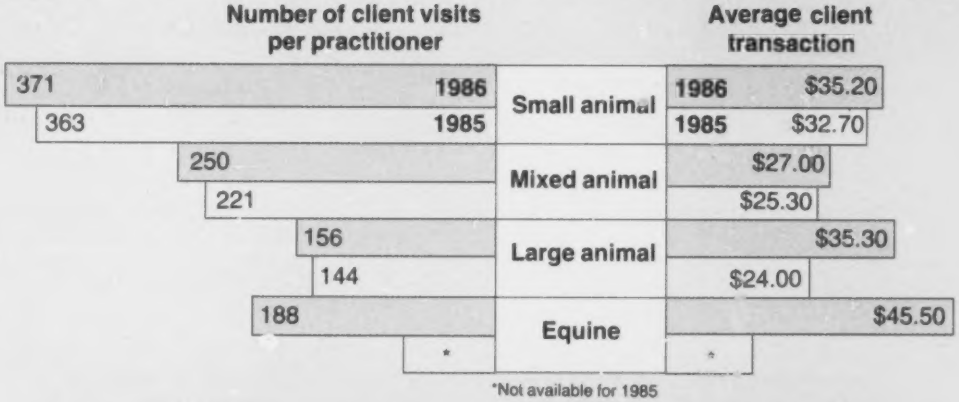
Increased client transaction fees for all practice types point to a friendlier marketplace. While expenses still stand as a roadblock to improved earnings, "they may also discourage new practices and thus decrease competition," says McCafferty.

"Fewer new practices will begin because of the enormous start-up costs," he predicts. "The high cost of space and increased drug expense add to the beginning practitioners' financial demands."

"Six years ago the industry was in a slump," he says. "The last two years have been a healing.

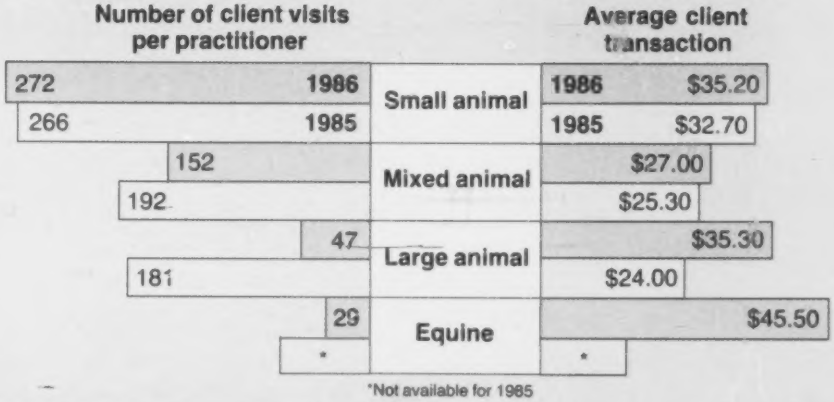
"Practitioners are thinking about hiring more doctors," McCafferty observes. "That's a sign of promise and progress." ▶

## CLIENTS STILL VISIT VETERINARIANS MORE IN SUMMER




*Not available for 1985

## WINTER CLIENT VISITS DECLINE DRASTICALLY




*Not available for 1985

## INCORPORATED DVMs STILL EARN MORE

Though incorporated doctors grossed more in 1986 than the previous year, considerably higher expenses ate into their margins. Still, incorporation was the way to go because these veterinarians grossed almost 31 percent more and took home nearly 17 percent more. Unincorporated practitioners increased their gross only $400 and raised their net the same figure while expenses rose $4,400.

| Incorporated | | Unincorporated |
|---|---|---|
| $168,100 1986 | GROSS | 1986 $116,400 |
| $149,300 1985 | | 1985 $116,000 |
| $51,900 | NET | $43,200 |
| $52,800 | | $42,800 |
| $85,500 | EXPENSES | $70,800 |
| $72,000 | | $66,400 |

## WORKING LONGER YIELDS A LITTLE MORE

| Hours/week | | Net |
|---|---|---|
| 48.3 | Small animal | $41,200 |
| 56.9 | Mixed animal | $38,200 |
| 57.4 | Large animal | $44,200 |
| 56.7 | Equine | $42,100 |

## PRACTICING LONGER INCREASES YOUR REWARDS

Justly so, your income increases slightly according to your years in practice, to a point.

| Gross in 1986 | Years in practice | Net in 1986 |
|---|---|---|
| $25,900 | 1-2 | $23,300 |
| $42,000 | 3-5 | $29,800 |
| $124,600 | 6-10 | $41,500 |
| $141,800 | 11-20 | $48,400 |
| $142,000 | 21-30 | $52,500 |
| $128,700 | 31-40 | $49,200 |
| $95,000 | Over 40 | $42,500 |

All figures are medians